

# **FISCAL NOTE**

## **SB 97**

February 12, 2007

**SUMMARY OF BILL:** Enacts the “Food Sales Tax Holiday Weekend.” Effective January 1, 2008, exempts all food from sales tax during the first weekend of each month (Friday through Sunday).

### **ESTIMATED FISCAL IMPACT:**

#### **Decrease State Revenues –**

**\$15,306,000 / General Fund - FY07-08**  
**\$34,328,000 / Education Fund – FY07-08**  
**\$2,422,000 / Earmarked to Local Govt. – FY07-08**  
**\$194,000 / Department of Revenue – FY07-08**  
**\$485,000 / Sinking Fund – FY07-08**  
**\$52,735,000 – Total Net Decrease - FY07-08**

**\$31,377,000 / General Fund – FY08-09**  
**\$70,372,000 / Education Fund – FY08-09**  
**\$4,965,000 / Earmarked to Local Govt. – FY08-09**  
**\$398,000 / Department of Revenue – FY08-09**  
**\$994,000 / Sinking Fund – FY08-09**  
**\$108,106,000 – Total Net Decrease – FY08-09**

#### **Increase State Expenditures –**

**\$19,775,000 – FY07-08 / General Fund**  
**\$40,539,000 – FY08-09 / General Fund**  
**\$100,000 One-Time**

**Decrease Local Govt. Revenues - \$2,422,000 – FY07-08**  
**\$4,965,000 – FY08-09**

#### **Assumptions:**

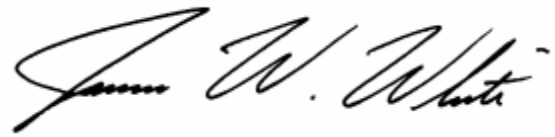
- Holiday weekends begin at 12:01 a.m. on the first Friday of each month and end at 11:59 p.m. the following Sunday.

- According to the Department of Revenue (DOR), taxable sales of food and food ingredients in Tennessee for FY05-06 were approximately \$7,753,600,000.
- Based upon historical collection patterns, taxable sales of food and food ingredients are estimated to grow by approximately 2.5% per year.
- Taxable sales for FY07-08 are estimated to be approximately \$8,146,126,000.
- Current state sales tax rate on food is 6.00%.
- The local option sales tax rate on food is estimated to average 2.25%.
- Based on Food Marketing Institute (FMI) data, approximately 62% of food purchases are perishable items and 38% are non-perishable items.
- Based on FMI data, approximately 53% of all grocery shopping occurs Friday through Sunday and 47% occurs Monday through Thursday.
- For weeks that would include the monthly sales tax holiday, 58% of all shopping will occur Friday through Sunday and 42% will occur Monday through Thursday.
- 20% of non-perishable sales shift to sales tax holiday weekends.
- 3% of perishable sales shift to sales tax holiday weekends.
- Total taxable sales that will occur on sales tax holiday weekends for FY07-08 are estimated to be \$1,757,806,000 (about 21.6% of total base).
- Local governments are held-harmless from the loss of local option sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue.
- The recurring decrease to state revenues is estimated to be \$105,470,000 ( $\$1,757,806,000 \times 6\% = \$105,468,360$ ).
- The estimated state decrease of \$105,470,000 would have been apportioned as follows: \$30,612,000 to the General Fund, \$68,656,000 to education, \$4,844,000 to local governments, \$388,000 to DOR, and \$970,000 to the Sinking Fund.
- The recurring decrease to local government revenue from the loss of state-shared sales tax revenue is estimated to be \$4,844,000 per year.
- The recurring increase to state expenditures for holding local governments harmless from the loss of any local option sales tax revenue is estimated to be \$39,550,000 ( $\$1,757,806,000 \times 2.25\% = \$39,550,635$ ).
- Payments to local governments for their loss of local option sales tax revenue are made from state sales tax collections (the majority of which would be apportioned to the General Fund for other uses).
- First fiscal year impact is estimated at 50% of full-year impact due to the January 1, 2008 effective date.
- Impacts for FY08-09 and subsequent fiscal years reflect estimated 2.5% annual growth of food sales.

- The one-time increase to state expenditures for computer programming and software enhancements required in the DOR is estimated to be \$100,000.

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large, stylized "J" and "W".

James W. White, Executive Director